

G-011/M-89-953 ALLOWING RESUMPTION OF MONTHLY BILLING OF TACONITE CLASS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice Vick	Commissioner

In the Matter of Peoples Natural Gas
Company's Request to Alter the Terms of its
Modified Rider for Billing Procedures

ISSUE DATE: May 7, 1990

DOCKET NO. G-011/M-89-953

ORDER ALLOWING RESUMPTION OF
MONTHLY BILLING OF TACONITE
CLASS

PROCEDURAL HISTORY

On October 25, 1989 Peoples Natural Gas Company (Peoples or the Company) filed a petition asking to discontinue weekly billing of customers in the taconite class and to resume monthly billing of those customers. The petition also requested authority to shift between billing the class weekly and billing the class monthly, subject to a 30 day notice requirement.

The Company has been billing the taconite class weekly since 1987. The Commission approved weekly billing at that time because instability in the taconite industry put the Company at risk of substantial losses from uncollectible bills. The Commission approved a stipulated agreement between the taconites and the Company, whereby the taconites accepted weekly billing in return for bill credits computed at the prime interest rate plus 2.5%. In the Matter of the Request of Peoples Natural Gas Company for Authority to Change its Billing Procedures, Docket No. G-011/M-87-151, ORDER APPROVING SETTLEMENT (July 30, 1987).

The Department of Public Service (the Department) and the taconite customer class filed comments urging denial of the Company's request.

The matter came before the Commission on April 25, 1990. The Company stated that if the Commission denied its request to shift between monthly and weekly billing, it would prefer to resume monthly billing on a permanent basis. The Company also contended that, should weekly billings continue, current economic conditions required a reduction in the taconites' bill credits. The Department offered to conduct an economic analysis to determine the appropriate amount for the bill credits.

FINDINGS AND CONCLUSIONS

The Commission will allow the Company to resume monthly billing of the taconite class, but will deny its request to shift between weekly and monthly billing on 30 days notice. The Commission agrees with the Company that the taconite industry is currently stable and that there is no present need for weekly billing. The Commission rejects the taconites' contention that resumption of monthly billing constitutes a rate increase requiring a general rate case.

Current Need for Weekly Billing

Utility bills are normally based on 30 days' usage. Minn. Rules, part 7820.3300. Weekly billing of the taconites was an unusual measure allowed during a period of extreme instability in the taconite industry. Two of Peoples' taconite customers declared bankruptcy during 1986-87, leaving unpaid gas bills totalling approximately one million dollars. International market conditions suggested that remaining taconite producers were also at risk. Weekly billing significantly decreased the Company's bad debt exposure by decreasing the amounts the taconites owed the Company at any given time.

Since 1987 the health and stability of the taconite industry have greatly improved. It is true that bankruptcies remain difficult to predict, and that the taconite industry remains subject to fluctuations in the world steel market. No one would contend, however, that the near-crisis conditions of 1987 still exist today. The Commission therefore does not believe that the risk of taconite bankruptcies is serious enough to require overruling the considered judgment of the Company.

The Company, after all, would be directly harmed by a taconite bankruptcy and has every incentive to protect itself from that possibility.¹ The Company has been serving the taconites since they began operations and can claim considerable expertise in evaluating their present and near-term solvency. Furthermore, interested parties are now familiar with the utility issues raised by distress in the taconite industry, and the range of possible solutions. Should weekly billing or a similar remedy be necessary in the future, Commission action could occur promptly.

Finally, the taconite customers no longer buy most of their gas from Peoples. They instead buy gas from other vendors and use

¹ Bad debt losses from bankruptcies of major customers are seldom reflected in rates, since they are considered unforeseeable, non-recurring expenses.

Peoples' transportation services. This reduces their bills from Peoples and reduces Peoples' exposure in the event of their financial distress.

Considering all these factors, the Commission concludes there is no longer a need to bill the taconites on a weekly basis.

The Company's Proposal to Shift Between Weekly and Monthly Billing

The Commission agrees with the Department and the taconites that allowing the Company to shift between weekly and monthly billing on 30 days notice would be disruptive, impractical, and inefficient. Such a system would require the taconites to maintain two procedures for auditing and paying Peoples' bills, one for weekly billings and one for monthly billings. Shifts between weekly and monthly billing could also disrupt a taconite's anticipated cash flow. Finally, such shifts would still require Commission review, involving significant resource expenditures on the part of the Commission, the Department, the Company, and the taconites.

For these reasons, the Commission will deny the Company's proposal to be allowed to shift between weekly and monthly billing on 30 days notice.

The Rate Increase Issue

The taconites argued that the change from weekly to monthly billing constituted a rate increase and could only be approved in a general rate case. The Commission disagrees, finding it is merely a change in billing procedures. Weekly billing was not instituted through a general rate case; a return to monthly billing does not require a rate case either.

The monthly rates the Company seeks to reinstate are the rates duly examined and approved as just and reasonable in the Company's last general rate case. They are the Company's lawful, tariffed rates for the taconite class.

The weekly rates the taconites have been paying (the charge for usage under the tariff minus the expedited billing credit of the prime interest rate plus 2.5%) were adopted by the Commission as the functional equivalent of the tariffed rates. When weekly billing was instituted, the expedited billing credit was considered an adjustment for the time value of money. It was not considered a rate reduction. The Order instituting weekly billing characterized the billing credit as follows:

The Stipulation and Agreement provides that Peoples shall compensate its customers for payments received prior to the date applicable under ordinary monthly billing using a time value of money credit equal to two and one-half percentage points over the prime rate.

The Commission finds that the Stipulation and Agreement represents a reasonable balance of interests between Peoples and its Taconite Class customers. Peoples receives a reduced risk of exposure to extraordinary bad debt expense, and its customers receive a generous allowance for the time value of their early payments.

Apparently, the taconites believe the amount of the expedited billing credit exceeded or now exceeds the true time value of their money. They may be correct. The Commission itself characterized the credit as "generous". Determining the time value of money is an inexact exercise. The time value of any company's money varies with many factors, but is especially dependent upon general economic conditions, the financial strength of the company, and its future outlook. The time value of each taconite company's money, and the value of its expedited billing credit, has probably fluctuated over time.

Nevertheless, benefitting the taconites was not the purpose of weekly billing, and it is not sufficient reason to continue it. If the benefits of weekly billing exceeded, or now exceed, the time value of the taconites' money, that was and is inadvertent. It did not and does not result from any Commission decision that the taconites should pay lower rates, and the Company collect lower revenues, than those authorized in the last general rate case. It would be unfair to require the Company to continue weekly billing, when it is no longer necessary, merely because it may incidentally confer an economic benefit on the taconites.

ORDER

1. The Company's request to resume monthly billing of the taconite class is granted.
2. The Company's request for authorization to shift between weekly and monthly billing on 30 days notice is denied.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)